



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.co.la.ca.us>

DAVID E. JANSSEN
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

August 12, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

LAC+USC MEDICAL CENTER ACCUMULATIVE CAPITAL OUTLAY (ACO) FUND

On July 29, 2003, the Department of Health Services (DHS) provided your Board with their revised Fiscal Outlook which reflected the transfer of \$105.0 million in 2002-03 from the DHS operating budget to the LAC+USC Medical Center ACO Fund. These funds would be utilized for one-time costs related to non-fixed medical equipment, furnishings and furniture for the LAC+USC Medical Center Replacement Project (Replacement Project). The operating transfer of \$105.0 million will be included in the DHS 2002-03 Year-End Appropriation Adjustment, currently expected to be presented to your Board for consideration in mid-September, as part of the annual year-end closing package. This memorandum provides additional information regarding the ACO Fund and the projected one-time costs associated with the Replacement Project.

Background

On July 7, 1998, your Board authorized the establishment of an interest bearing ACO Fund for the future acquisition of medical equipment for the Replacement Project. The ACO Fund was established to allow DHS to reserve funds from its operating budget to fund these future costs which were estimated, at that time, at approximately \$50 million.

In my attached November 25, 2002 memorandum, I advised your Board of an estimated \$240.5 million in one-time start-up costs for the Replacement Project. Included in that amount was \$105.2 million for non-fixed medical equipment, furnishings and furniture. The estimate of \$105.2 assumed that all these items would be purchased new and delivered to the replacement facility. That amount also included furniture and furnishings for public and patient areas.

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August 12, 2003
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As further indicated in that earlier memorandum, our funding plan for these one-time costs would utilize, to the maximum extent possible, one-time funding sources and financing, including excess Health Services surplus amounts above the amounts included in the Department's Fiscal Outlook. The proposed transfer of \$105.0 million of 2002-03 year-end surplus to cover costs for non-fixed medical equipment, furnishings and furniture is consistent with this funding plan.

We will continue to work with DHS staff to refine this cost estimate based on our review of existing medical equipment which could be moved to the new hospital or of equipment with a useful life of five years or longer which could be appropriately lease purchased. We will report periodically to your Board on adjustments to our estimates of these one-time start-up costs.

We are also reviewing the ordinance which established the ACO Fund to determine what changes may be needed to ensure that funds deposited to it may be utilized for any one-time costs for the Replacement Project, as authorized by your Board. Currently, this fund is reserved for the replacement of medical equipment only (not for furniture and furnishings or medical equipment under \$5,000). We will work with County Counsel on any necessary ordinance changes and will present these for consideration by your Board.

In addition, we are continuing to discuss with DHS staff the need to identify one-time funding sources for the other one-time costs associated with the Replacement Project, including costs for moving and transition and for an electronic medical records system. These costs, currently estimated at approximately \$135.0 million, are not yet reflected in the Department's Fiscal Outlook. We expect to present recommendations for consideration by your Board in the near future.

If you have any questions or need additional information please call me or your staff may contact Angela Schiller of my staff at (213) 974-6879.

DEJ:DIL
SAS:AS:bjs

Attachment

c: Executive Officer, Board of Supervisors
 County Counsel
 Auditor-Controller
 Director, Department of Health Services
 Director, Department of Public Works



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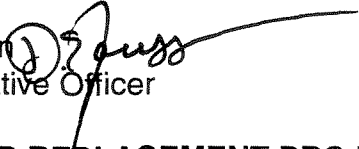
ZEV YAROSLAVSKY
Third District

DON KNABE
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MICHAEL D. ANTONOVICH
Fifth District

November 25, 2002

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen 
Chief Administrative Officer

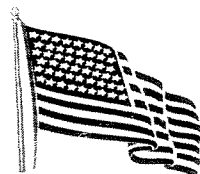
**LAC+USC MEDICAL CENTER REPLACEMENT PROJECT
ONE-TIME START-UP COSTS**

This is in response to several questions that have been raised regarding the \$240.5 million in one-time start-up costs for the LAC+USC Medical Center Replacement Project, as specified in the Board letter recommending the award of the construction contract. The recommendation to award the contract will be considered by your Board on December 3, 2002.

The \$240.5 million indicated in the Board letter represents our estimate of the maximum one-time start-up costs that will be incurred for the project and include:

- \$105.2 million for non-fixed medical equipment, furnishings and furniture;
- \$35.3 million for moving and transition activities; and
- \$100.0 million for the electronic medical records system.

Based upon construction completion in January 2007 and full occupancy of the hospital by the end of May 2007, the vast majority of the costs are anticipated to occur beginning in Fiscal Year 2005-06 through the end of Fiscal Year 2006-07. A portion of these costs, however, will be incurred earlier to properly prepare for the transition to the new hospital and to program and design the electronic medical records system. A summary of the anticipated costs between 2002-03 and 2007-08 is attached for your information.



The costs, and the anticipated timing of the expenditures, will continue to be refined as information is developed and additional analysis is completed. Some of the factors that would mitigate the total costs are discussed below.

Medical Equipment, Furnishings and Furniture: Up to \$105.2 million

The estimated maximum cost for non-fixed medical equipment, furnishings and furniture assumes that all of these items would be purchased new and delivered to the replacement facility. This category of expenditures includes a wide variety of items, from ultrasound systems to exam tables. It also includes furniture and furnishings for public and patient areas. It does not include furniture for staff offices and other nonpublic areas, as it is assumed that these items will be relocated from the existing facilities.

As indicated in the Board letter, Health Services is currently reviewing existing equipment at the Medical Center to determine which pieces of medical equipment will be able to be relocated to the new hospital in 2007. In addition, the Medical Center will be coordinating equipment purchases funded from its annual operating budget over the next several fiscal years to maximize the amount of equipment that can be relocated.

Electronic Medical Records System: \$90 to \$100 million

The Replacement Facility was programmed and designed on the assumption that an electronic medical records system would be implemented in the new facility to increase the efficiency of the facility and enhance patient care. The estimated maximum cost includes the design, procurement and implementation of an electronic medical record system as well as training staff to use the system. The field of electronic medical records systems is highly dynamic and the eventual cost of the system will depend upon the finalization of the requirements for the system as well as the availability of existing electronic medical record programs to meet those requirements. Health Services will report to your Board separately on the status of the electronic medical records system, including milestones for achieving implementation in the new facility.

Moving and Transition: \$25 to \$35.3 million

Moving and transition costs include a variety of activities that will be required to ensure the successful transition between the existing hospital buildings and the new facility. These costs include:

- Consultant and staff costs for planning and implementing the transition;

- Training staff on how to use and maintain various building systems (excluding the electronic medical records system);
- Orientation sessions and public relations materials to familiarize and inform staff, patients and the public on the new facility; and
- Costs for effectuating the physical move of materials, patients, staff offices, etc.

The preliminary costs for the above activities, including an estimate for inflation and contingency, is approximately \$25 million. However, this amount does not include other costs that will need to be incurred and for which no estimates are currently available. These additional costs include:

- The relocation or disposal of any remaining equipment and furnishings, including modular buildings that would be vacated;
- "Mothballing" of General Hospital in accordance with the Secretary of the Interior's Standards for Historic Buildings, as required by our agreement with the Federal Emergency Management Agency;
- Decommissioning, closing and securing of the existing outpatient department building and Women's and Children's Hospital, which are to be closed in accordance with the Environmental Impact Report; and
- Consolidation of any non-hospital related functions located at the Medical Center campus, as may be required.

Current Funding Assumptions

As these costs represent one-time costs, the funding plan will utilize, to the maximum extent possible, one-time funding sources and financing. The funding sources/financing strategies that will be considered in developing the funding plan include:

- Use of any excess Health Services designation above the amounts included in the department's forecast to fund the Accumulative Capital Outlay Fund created by your Board in 1998 to provide for the purchase of the medical equipment;

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- Use of tobacco settlement funds that are not required to fund programs already identified or one-time costs associated with the System Redesign; and
- Short-term and medium-term financing of equipment with a useful life of 5 years or longer. The total of value of the equipment that may be financed is currently estimated at \$85.7 million. This would then convert into estimated annual debt service payments of \$7.9 million in Fiscal Year 2006-07, \$19.8 million from Fiscal Year 2007-08 through 2011-12, and \$11.9 million in 2012-13.

The final funding plan, however, will depend upon the ultimate System Redesign for Health Services as this will impact both the availability of one-time funding and the ability of Health Services to assume any debt service resulting from financing some of the costs.

If you have any questions, please contact me or your staff may contact Sharon Yonashiro at 213-974-2273.

DEJ:SNY:JSE
KW:mdc

Attachment

c: Executive Officer, Board of Supervisors
County Counsel
Department of Health Services
Department of Public Works

LAC+USC Medical Center Replacement Project
One-Time Start Up Costs
Preliminary Costs/Cash Flow

	<u>02-03</u>	<u>03-04</u>	<u>04-05</u>	<u>05-06</u>	<u>06-07</u>	<u>07-08</u>	<u>Total</u>
Medical Equipment (1)							
Fixed Assets	\$0	\$0	\$0	\$34,288,247	\$51,432,371		\$85,720,618
Minor Equipment (S&S)	\$0	\$0	\$0	\$0	\$15,754,367		\$15,754,367
Furniture (Public Areas)	\$0	\$0	\$0	\$0	\$3,744,452		\$3,744,452
<i>Subtotal Medical Equipment</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$34,288,247</i>	<i>\$70,931,190</i>	<i>\$0</i>	<i>\$105,219,437</i>
Moving & Transition							
Transition Team/Planning Mgmt. (2)	\$435,080	\$1,740,320	\$1,740,320	\$1,740,320	\$1,740,320	\$1,305,240	\$8,701,600
Training (excluding EMR)	\$0	\$0	\$777,785	\$2,259,354	\$4,402,707		\$7,439,845
Orientation/public relations	\$0	\$0	\$0	\$0	\$1,455,030		\$1,455,030
Moving costs (excluding med. equipment)	\$0	\$0	\$0	\$0	\$3,831,064		\$3,831,064
Escalation/Inflation (@3%)	\$0	\$52,210	\$153,353	\$370,770	\$953,556	\$207,925	\$1,737,813
Contingency (@10%)	\$43,508	\$174,032	\$251,810	\$399,967	\$1,142,912	\$130,524	\$2,142,754
<i>Subtotal Estimated Moving & Transition</i>	<i>\$478,588</i>	<i>\$1,966,562</i>	<i>\$2,923,268</i>	<i>\$4,770,411</i>	<i>\$13,525,589</i>	<i>\$1,643,689</i>	<i>\$25,308,106</i>
Lumpsum Allowance for Unknown Costs						\$10,000,000	\$10,000,000
<i>Subtotal Moving and Transition</i>	<i>\$478,588</i>	<i>\$1,966,562</i>	<i>\$2,923,268</i>	<i>\$4,770,411</i>	<i>\$13,525,589</i>	<i>\$11,643,689</i>	<i>\$35,308,106</i>
Electronic Medical Records Systems							
Programming & Design	\$800,000	\$7,200,000	\$0	\$0	\$0	\$0	\$8,000,000
Procurement & Installation	\$0	\$0	\$26,400,000	\$40,000,000	\$25,600,000	\$0	\$92,000,000
<i>Subtotal Electronic Medical Records</i>	<i>\$800,000</i>	<i>\$7,200,000</i>	<i>\$26,400,000</i>	<i>\$40,000,000</i>	<i>\$25,600,000</i>	<i>\$0</i>	<i>\$100,000,000</i>
Total Estimated One-Time Costs	\$1,278,588	\$9,166,562	\$29,323,268	\$79,058,658	\$110,056,779	\$11,643,689	\$240,527,543

(1) Cash flow assumes all new equipment and cash purchase. Obligation will likely be reduced through relocation of existing equipment and financing.

(2) Includes management of procurement for medical equipment.